

To: Fielder, Robin[Robin.Fielder@anadarko.com]
 From: Stephen Richardson[stephen.richardson@evercoreisi.com]
 Sent: Wed 5/3/2017 6:13:20 AM Coordinated Universal Time
 Subject: APC - In the Teeth of the Transition

**PLAINTIFF'S
EXHIBIT**

 CASE
NO.

 EXHIBIT
NO. *6*

EVERCORE ISI

Energy | Oil & Gas Exploration & Production

May 3, 2017

ANADARKO PETROLEUM

APC | \$70.18

Outperform | TARGET PRICE: \$80.00

Earnings Report - Change in Price Target

Stephen Richardson

212-446-5639

stephen.richardson@evercoreisi.com
Jaclyn Hourihan

212-446-9466

jaclyn.hourihan@evercoreisi.com
Daniel Walk

212-446-5616

daniel.walk@evercoreisi.com
In the Teeth of the Transition
1Q Outlook Poses Challenges to the Thesis

Transitions in E&P are challenging, and in many ways 1H17 was likely to prove the apex of the transition for APC. Integrating disparate assets in the Gulf of Mexico (a challenging operating environment, particularly when energy investors crave predictability), completing major asset divestitures which muddle a clear view of the go forward asset base, and transitioning to growth from the core of the US onshore (Delaware) where big growth off a small base will be needed to drive corporate level results were the hurdles. Add to this headlines and fears surrounding a tragic residential explosion two weeks ago in CO that saw APC pre-emptively shut-in legacy production in the region, a bumpy 2Q oil guide driven by outages and tie-ins in the GoM, and a massive (not completely unexpected) write down at Shenandoah all suggest 1Q was likely a perfect storm of negatives for the stock. While a more supportive macro backdrop may have seen the stock (still a go to E&P name for many) defended, we suspect sentiment could be reaching new lows. Our view remains that the core asset proposition (3-Ds) is compelling, as is relative valuation, and the optionality associated with cash on hand (\$6 Bn at 3/31). **We reduce our PT from \$88 to \$80** based on revisions to undeveloped GoM resource + a more risked US onshore volume ramp but **maintain our Outperform rating** post 1Q results.

1Q Results. APC reported 1Q17 production of 795 mboe, slightly above our 791 mboe estimate, driven by higher natural gas volumes. Proforma volumes of 672 mboe/d were slightly above our 671 mboe/d. Realized pricing came in mixed. Per-unit LOE and G&A were ~10% and ~2% below our estimates, respectively, with CFPS of \$2.04/shr beating our \$1.93/shr by ~5%. Delaware Basin volumes reached 31 mbo/d with five rigs total added (reaching 15 rigs), while DJ Basin volumes averaged 242 mboe/d where APC added one rig (ending at 6 total).

What to look for on the call? 1) Delaware JV expiration and 2017 capital impact. APC added 5 rigs throughout 1Q, bringing total rig count to 15. APC has previously indicated rig count would be higher in 1H17 as it works to secure operatorship across the Delaware Basin with fewer rigs (but more completions) in 2H as development gets underway. While likely a 2H decision based on confidence in the commodity outlook, we look for detail on the possible expansion of the 2017 capital program to accelerate activity in the Delaware Basin with 1Q17 closing cash nearing \$6 Bn. **2) Colorado.** Last week APC issued a statement that it had voluntarily shut in 3,000 legacy vertical wells in Colorado following a home explosion near an APC owned legacy well last month. Press reports earlier today indicated the investigation (being led by the local fire department) concluded the cause was a cut gas line near the home's foundation. **3) GoM.** Today's update included several notable datapoints in the GoM, including the integration of FCX, strong performance from Caesar/Tonga, and success at Calpurnia. While we (and the street) had viewed as heavily risked, APC announced the Shenandoah-6 appraisal well did not encounter the oil-water contact and recorded a one-time GoM-related impairment of over \$500mm (\$467mm Shenandoah).

CC tomorrow 9:00 a.m. ET. Dial in: (877) 883-0383; Pwd: 3348513.

For full PDF of report, including disclosures, click here: [In the Teeth of the Transition](#)

IMPORTANT DISCLOSURES

This material is for our clients only. This material is based on current public information that we consider reliable, but we do not represent it as accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed in our research. Our asset management area and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in our research.

Our research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in our research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice.

All research reports are disseminated and available to all clients simultaneously. No part of this material or any research report may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of Evercore ISI.

E-mail communications may contain viruses or other defects, and Evercore ISI does not accept liability for any such virus or defect, nor does Evercore ISI warrant that e-mail communications are virus or defect free.